

TARIFF ACTION MEMORANDUM

File Nos.: TA50-358

Date : April 13, 2021

Date Filed: March 1, 2021

Statutory End Date: April 15, 2021

Name of Utilities: Potter Creek Water Company

Description: PRISM Surcharge Update

Synopsis of Filing:

Potter Creek Water Company submits its annual update to its Plant Replacement and Improvement Surcharge Mechanism.

Tariff Recommendations:

The Commission should approve Tariff Sheet No. 40, filed April 8, 2021, by Potter Creek Water Company in TA50-358, as shown on the attached side-by-side tariff sheet (BA-1). The effective date of the tariff sheet should be April 15, 2021.

Reason(s) for the above-indicated recommendations: See attached memorandum.

Signed: Becki Alvey
Becki Alvey

Title: Utility Tariff Analyst

Commission decision regarding these recommendations:

	<u>Date (if different from 4/13/2021)</u>	<u>I CONCUR</u>	<u>I DO NOT CONCUR</u>	<u>I WILL WRITE A DISSENTING STATEMENT*</u>
Pickett		<u>RMP</u>		
Kurber		<u>KKI</u>		
Scott		<u>AGS</u>		
Sullivan		<u>DS</u>		
Wilson		<u>JWW</u>		

*If this column is initialed, Staff will contact the Commissioner for the statement; otherwise, the dissent will simply be noted at the close of the By Direction letter or order.

STATE OF ALASKA
The Regulatory Commission of Alaska
701 West 8th Ave., Suite 300
Anchorage, Alaska 99501-3469

M E M O R A N D U M

To: Robert M. Pickett, Chairman
Keith Kurber II
Antony Scott
Daniel A. Sullivan
Janis W. Wilson

Date: April 13, 2021

From: Becki Alvey, Utility Tariff Analyst

Subject: TA50-358
PRISM Surcharge Update

STATEMENT OF CASE

Potter Creek Water Company (PCWC) submits its annual update to its Plant Replacement and Improvement Surcharge Mechanism (PRISM).

RECOMMENDATIONS

The Commission should approve Tariff Sheet No. 40, filed April 8, 2021, by PCWC in TA50-358, as shown on the attached side-by-side tariff sheet (BA-1). The effective date of the tariff sheet should be April 15, 2021.

BACKGROUND

On November 29, 2011, the Commission opened Docket No. R-11-006 to discuss new regulations establishing PRISM for economically regulated water and wastewater utilities.¹ After two technical conferences that resulted in the formation of a utility working group and multiple comment periods, the Commission adopted regulations for PRISM on February 25, 2014.² The regulations were filed with the Lieutenant Governor on May 30, 2014, and became effective June 29, 2014.³ PRISM allows eligible water or wastewater utilities to establish a surcharge to recover capital costs associated with plant placed in service between general rate cases.⁴

¹ See Order No. R-11-006(1), *Order Opening Docket and Scheduling Technical Conferences*, issued November 29, 2011.

² See Order No. R-11-006(7), issued February 25, 2014.

³ See Order No. R-11-006(8), issued July 2, 2014.

⁴ See 3 AAC 52.800.

In TA44-358, PCWC proposed new provisions implementing the PRISM surcharge established in Docket No. R-11-006. On November 2, 2018, the Commission issued Letter Order No. L1800457, approving PCWC's PRISM tariff sheets.

On March 19, 2019, PCWC filed TA47-358, a revenue requirement study based on a 2018 test year. On May 3, 2019, the Commission issued Order No. U-19-024(1) suspending TA47-358 and approving interim and refundable rates. On October 8, 2019, PCWC filed a supplement to Docket No. U-19-024, updating its revenue requirement study to include additional plant placed in service.⁵ On October 25, 2019, PCWC filed additional information on the additional plant.⁶ On November 6, 2019, the Commission issued Order No. U-19-024(8) accepting the October 8, 2019 and October 25, 2019 supplemental filings, adopting a procedural schedule, and extending the suspension period until August 11, 2020. On April 29, 2020, the Commission issued Order No. U-19-024(10), accepting a stipulation. On May 19, 2020, the Commission issued Order No. U-19-024(11), approving the tariff sheets filed consistent with the stipulation. That order approved Tariff Sheet No. 40, PCWC's PRISM tariff sheet, which reset the PRISM surcharge to 0%.

PCWC now submits TA50-358, its annual PRISM surcharge update.

Notice to Customers

3 AAC 52.810(b) provides that a utility shall notify customers by bill insert, or other method specified in its surcharge tariff, before filing surcharge updates and additional notice of a surcharge update will not be required unless ordered by the Commission.⁷ PCWC's tariff provides that customers will be notified by bill insert or email.⁸

PCWC filed a copy of the bill insert with TA50-358. The bill insert was sent on February 26, 2021.⁹

ANALYSIS

PRISM

The Commission evaluates proposed revisions to PRISM under 3 AAC 52.800 – 3 AAC 52.890, which provides what information is required for each proposed PRISM surcharge revision. This includes information supporting the calculation of the surcharge, prefiled direct testimony, the utility's most recent long-term infrastructure improvement plan, the utility's most recent annual asset optimization plan, and certification that a general rate case has been filed within the five years immediately preceding the establishment or revision of the surcharge tariff.¹⁰

⁵ See TR1905412, filed October 8, 2019.

⁶ See TR1905771, filed October 25, 2019.

⁷ See 3 AAC 52.810(b).

⁸ See Tariff Sheet No. 41, effective November 5, 2018.

⁹ See bill insert included with TA50-358.

¹⁰ See 3 AAC 52.805(d).

In TA50-358, PCWC submitted the calculation of its water PRISM surcharge, supporting information for that calculation, a copy of its most recent long-term infrastructure improvement plan, a copy of its annual asset optimization plan, and prefiled direct testimony which included a certification that a general rate case had been filed within the most recent five years.

PCWC's approved methodology for calculating the PRISM surcharge is as follows:

$$PRISM = \frac{(EP \times WACC) + Dep + Taxes + e}{PAR}$$

Where:

EP = the original cost of PRISM eligible plant net of accumulated depreciation.

WACC = the weighted average cost of capital approved in the utility's most recent general rate case.

Dep = the depreciation expense related to PRISM eligible plant.

Taxes = the state and federal statutory tax rates applied to the equity return, and local property taxes applicable to the PRISM eligible plant.

e = the amount calculated under the annual reconciliation or any correction or adjustment of actual entries used in the calculation of the surcharge rate.

PAR = the projected annual revenues to be collected from customers.¹¹

In Docket No. U-19-024, the Commission accepted a stipulation between PCWC and the Attorney General (AG). In that stipulation, PCWC and the AG agreed on a 5.84% overall rate of return.¹²

Staff verified that PCWC used the 5.84% agreed to in the stipulation. In addition, Staff verified that the utility used the straight line depreciation in its revenue requirement in Docket No. U-19-024. PCWC calculated depreciation using the straight line method in TA50-358.

PRISM Surcharge Increase (Tariff Sheet No. 40)

With TA50-358, PCWC propose a PRISM surcharge of 0.35% for its water customers. This is an increase from the current PRISM surcharge of 0.00%.

PCWC reported that the eligible water plants costs are \$4,476.96. This amount is multiplied by the weighted average cost of capital, 5.84%, equals a total return component of \$261.45. The total annual costs, which is the sum of the total return component, depreciation, taxes, and any correction or adjustment, equals \$562.44. The costs are then divided by the annual revenues, projected at \$161,005.00, which equals 0.35%.¹³

¹¹ See Tariff Sheet No. 40, effective November 5, 2018.

¹² See Appendix to Order No. U-19-024(11), issued April 29, 2020, at page 6.

¹³ See TR2102131, filed April 8, 2021, at page 4.

The PRISM surcharge is applied to all classes of service for each customer's billed revenue.¹⁴ The impact on a typical residential customer is shown below.

Customer Water Bill	Current	Proposed	Difference
PRISM Surcharge	0.00%	0.35%	0.35%
<u>Customer Bill 1,200 gallons</u>			
	\$		
Usage fee (\$6.80/1,000 gal)	8.28	\$ 8.28	\$ -
Customer Fixed Fee	65.88	65.88	-
Regulatory Cost Charge, 0.897%	0.67	0.67	-
PRISM Surcharge	0.00	0.26	0.26
			\$
Total Customer Bill	\$74.83	\$ 75.09	0.26

Staff has verified that the PRISM surcharge was calculated using the PCWC's approved methodology, and that the tariff sheet is correct.

Long-term Infrastructure Improvement Plan and Asset Optimization Plan

3 AAC 52.805(d)(1) provides that a copy of the utility's most recent long-term infrastructure improvement plan must accompany PRISM surcharge filings.¹⁵ Additionally, 3 AAC 52.805(d)(2) provides that a copy of the utility's most recent annual asset optimization plan must accompany PRISM surcharge filings.¹⁶ 3 AAC 52.815(e) requires Commission Staff to review the long-term infrastructure improvement plan or the asset optimization plan for compliance with the provisions of 3 AAC 52.800 – 3 AAC 52.890, the uniform system of accounts established for water and wastewater utilities, generally accepted accounting principles, and reasonable management practices. Staff verified that PCWC provided copies of the long-term infrastructure improvement plan and asset optimization plan.

CONCLUSION

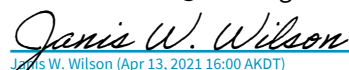
With TA50-358, PCWC propose to its PRISM surcharge. Staff has reviewed the proposed tariff sheet and believes the surcharge was calculated correctly, according to the utility's methodology. Therefore, Staff recommends that the Commission approve Tariff Sheet No. 40, filed April 8, 2021, by PCWC in TA50-358. The effective date of the tariff sheet should be April 15, 2021.

Signature: 
Email: bob.pickett@alaska.gov

Signature: 
Keith Kurber II (Apr 13, 2021 08:08 AKDT)
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Antony Scott (Apr 13, 2021 08:23 AKDT)
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¹⁴ See Tariff Sheet No. 39, effective November 5, 2018.

¹⁵ See 3 AAC 52.805(d)(1).

¹⁶ See 3 AAC 52.805(d)(2).

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APR 30 2020

STATE OF ALASKA
REGULATORY COMMISSION OF ALASKA

POTTER CREEK WATER COMPANY

14.4 Computation (Cont'd)

Formula: the formula for calculating the plant replacement surcharge percentage is as follows:

$$\text{PRISM} = \frac{(\text{EP} * \text{WACC}) + \text{Dep} + \text{Taxes} + e}{\text{PAR}}$$

PAR

Where:

EP = The original cost of PRISM eligible plant net of accumulated depreciation.

WACC = The weighted average cost of capital approved in the utility's most recent general rate case.

Dep = The depreciation expense related to PRISM eligible plant.

Taxes = The state and federal statutory tax rates applied to the equity return, and local property taxes applicable to the PRISM eligible plant.

e = The amount calculated under the annual reconciliation or any correction or adjustment of actual entries used in the calculation of the surcharge rate.

PAR = The projected annual revenues to be collected from customers.

PRISM SURCHARGE RATE: The PRISM percentage is 0.0% R

Pursuant to U-19-024(11) and U-19-024(11E)

Effective May 19, 2020

Issued by Potter Creek Water Company

By Neil Bergt Title President



POTTER CREEK WATER COMPANY

14.4 Computation (Cont'd)

Formula: the formula for calculating the plant replacement surcharge percentage is as follows:

$$\text{PRISM} = \frac{(\text{EP} * \text{WACC}) + \text{Dep} + \text{Taxes} + e}{\text{PAR}}$$

PAR

Where:

EP = The original cost of PRISM eligible plant net of accumulated depreciation.

WACC = The weighted average cost of capital approved in the utility's most recent general rate case.

Dep = The depreciation expense related to PRISM eligible plant.

Taxes = The state and federal statutory tax rates applied to the equity return, and local property taxes applicable to the PRISM eligible plant.

e = The amount calculated under the annual reconciliation or any correction or adjustment of actual entries used in the calculation of the surcharge rate.

PAR = The projected annual revenues to be collected from customers.

PRISM SURCHARGE RATE: The PRISM percentage is 0.35% I

Pursuant to Docket

Tariff Advice No. 46-358 Effective 1/15/2019 April 15, 2021

Issued by Potter Creek Water Company

By Neil Bergt Title President